

ENTREPRENEURSHIP

Vacuum exists for small business

‘Early detection of problems is key to success’

THOSE GLOBAL ECONOMIES characterised by entrepreneurship and innovation – and the United States and Israel readily spring to mind – tend also to have vibrant venture capital industries. Venture capital is a tiny part of the broader South African private equity market, though we differ little from most countries in that respect.

Business Partners MD Jo Schwenke recently returned from a Geneva private equity conference on investing in “frontier markets” (those less developed than SA), where it was noted that few private equity firms were prepared to invest in deals of less than US\$1m. In SA, Schwenke estimates that only three or four firms such as his are prepared to invest in deals of less than R50m.

Start-up funds are scarce; those that do exist often are small and have a sharp focus on technology and innovation. For example, Triumph Venture Capital is fully invested with just four investments, but each is an exciting technology development where SA is at the global cutting edge.

Business Partners’ market is more pro-saic, funding small and medium enterprises (SMEs), such as franchises, property deals and lifestyle businesses. They may be small but the effect on job creation is wide: last year it concluded 664 deals for 72% of all reported private equity/venture capital deals in SA, with an average deal size of R1m.

Though both are venture capitalists they target very different markets with differing themes. Schwenke sees SA as a highly entrepreneurial country and its model is predicated on helping entrepreneurs succeed in business by providing not just capital but also business skills and management capability.

In Triumph’s business model, CEO Wellington Chadehumbe doesn’t see SA as particularly entrepreneurial nor innovative; it looks not at lifestyle

businesses but start-ups with the potential to become the next Microsoft or Virgin, creating thousands of jobs in SA and globally.

“If you look at the largest companies in the US few are older than 20 years. That demonstrates that you can start from a low base and grow massive. It’s why venture capital in the US is a popular asset class distinct from listed equities,” says Chadehumbe.

“To me, entrepreneurship isn’t copying what others are doing or running a franchise. We’re looking for something unique in technology with the potential for high growth – because that’s what sustainably drives economic growth and creates employment.”

A reason why SA lacks true entrepreneurs and innovators is a lack of role models. Entrepreneurship thrives where people respond to others who have done well – people such as Bill Gates, Richard Branson and our own Mark Shuttleworth.

In the case of Business Partners, it believes mentors can take the place of role models. For Triumph, it’s a long-term project to cultivate role models and says its patience in investing in only a few businesses but contributing heavily towards their success.

“We’re looking to raise further capital, but

we’re now focused on converting our current opportunities into real value. They’re all technology start-ups, to which we add value through our input into the business and commercialisation strategies of the technology companies, as well as assisting the companies to go global,” Chadehumbe says.

The secret to entrepreneurship is to be highly responsive to trends in the economy and SA’s economy is currently swinging from consumer-driven growth to infrastructure-led growth.

Schwenke says that trend is immediately identifiable in funding applications it receives. “We’re seeing growing interest through our deal flow in business ideas involving sub-contracting, and somewhat fewer ideas that feed into the consumer market. That’s the nature of small business – it responds almost simultaneously to economic change and often is the trend leader.”

Schwenke believes its model also holds the potential to develop huge businesses, citing McDonald’s and Starbucks as two hugely successful US venture capital start-ups that mirror Business Partners’ model, which is to have clients implement systems that enable the close monitoring of those areas most

likely to cripple a business: cash flow, debtors, asset management, gross profit and expenses.

“Early detection of problems is key to success.

And where we provide assistance is in correcting any problem. It’s too easy to attribute a worsening statistic to ‘the general economic downturn’ – but even that can be addressed if a business has a plan. The true role of private equity is to grow a business by monitoring its performance against forecasts, review that plan regularly and fine-tune it to changing circumstances in the market or economy,” says Schwenke. ▣



Mentors can replace role models.
Jo Schwenke

Looking for something unique.
Wellington Chadehumbe